

~~SECRET~~

SUMMARY OF TERMINATION OF COSTS BY CONTRACT

EXHIBIT A

Contract Item No.	DESCRIPTION	Sch. Ref.	Direct Material	Factory Labor & Overhead	Factory Cost Variance	Eng'g Mat'l	Eng'g Labor	Tools & Test Equip't	G&A	TOTAL
7	<u>Contractor's Proposal</u>									
	Incurring costs			\$ 11,964	\$ 3,590	\$ 47,868	\$ 92,397		\$ 26,489	\$182,308
	Estimated costs					18,333			3,117	21,450
	Total -			<u>11,964</u>	<u>3,590</u>	<u>66,201</u>	<u>92,397</u>		<u>29,606</u>	<u>203,758</u>
7	<u>Questioned Costs</u>									
	Incurring Costs - Variance Factor	1			2,251				383	2,634
	G&A	6							7,356	7,356
	Estimated Costs - Purchase commitments	4				15,000			2,550	17,550
	G&A	6							67	67
	Total -				<u>2,251</u>	<u>15,000</u>			<u>10,356</u>	<u>27,607</u>
7	<u>Accepted Costs</u>									
	Incurring Costs			11,964	1,339	47,868	92,397		18,750	172,318 - See Note 1
	Estimated Costs					3,333			500	3,833
	Total -			<u>11,964</u>	<u>1,339</u>	<u>51,201</u>	<u>92,397</u>		<u>19,250</u>	<u>176,151</u>
Note 1: In accordance with Schedule 4, paragraph (a) it appears as if \$30,896 for purchase commitments plus G&A of \$5,252 should appear as a questioned cost instead of an accepted cost for Item 7. This will be determined at the time of our negotiation meeting.										
10	<u>Contractor's Proposal</u>									
	Incurring Costs		270,383	208,529	62,562	26,010	106,870	20,725	118,163	813,242
	Estimated Costs		126,100	35,244	10,573	42,074	85,605	5,555	51,876	357,027
	Total -		<u>396,483</u>	<u>243,773</u>	<u>73,135</u>	<u>68,084</u>	<u>192,475</u>	<u>26,280</u>	<u>170,039</u>	<u>1,170,269</u>
10	<u>Questioned Costs</u>									
	Incurring Costs - Variance Factor	1			41,443				7,045	48,488
	G&A	6							26,796	26,796
	Estimated Costs - Factory Labor	2		3,971	1,191				878	6,040
	Purchase commitments	4	30,896						5,252	36,148 - See Note 1
	Variance Factor	5			7,193				1,223	8,416
	G&A	6							5,231	5,231
	Total -		<u>30,896</u>	<u>3,971</u>	<u>49,827</u>				<u>46,425</u>	<u>131,119</u>

~~SECRET~~

SECRET

Contract Item No.	DESCRIPTION	Sch. Ref.	Direct Material	Factory Labor & Overhead	Factory Cost Variance	Eng'g Mat'l	Eng'g Labor	Tools & Test Equip't	G&A	TOTAL
10	Accepted Costs									
	Incurred Costs		270,383	208,529	21,119	26,010	106,870	20,725	84,322	737,958
	Estimated Costs		95,204	31,273	2,189	42,074	85,605	5,555	39,292	301,192
	Total -		<u>365,587</u>	<u>239,802</u>	<u>23,308</u>	<u>68,084</u>	<u>192,475</u>	<u>26,280</u>	<u>123,614</u>	<u>1,039,150</u>
11, 12 & 13	Contractor's Proposal									
	Incurred Costs		159,785	88,562	26,533	6,631	34,266	30,138	58,806	404,721
	Estimated Costs		53,954	25,165	7,550	12,336	12,878	9,497	20,635	142,015
	Total		<u>213,739</u>	<u>113,727</u>	<u>34,083</u>	<u>18,967</u>	<u>47,144</u>	<u>39,635</u>	<u>79,441</u>	<u>546,736</u>
11, 12 & 13	Questioned Costs									
	Incurred Costs - Variance Factor	1			17,556				2,985	20,541
	G&A	6							14,557	14,557
	Estimated Costs - Factory Labor	2		2,835	851				627	4,313
	Purchase Commitments	4	24,044						4,088	28,132
	Variance Factor	5			5,136				873	6,009
	G&A	6							1,768	1,768
	Total		<u>24,044</u>	<u>2,835</u>	<u>23,543</u>			<u>24,898</u>	<u>75,320</u>	
11, 12 & 13	Accepted Costs									
	Incurred Costs		159,785	88,562	8,977	6,631	34,266	30,138	41,264	369,623
	Estimated Costs		29,910	22,330	1,563	12,336	12,878	9,497	13,279	101,793
	Total		<u>189,695</u>	<u>110,892</u>	<u>10,540</u>	<u>18,967</u>	<u>47,144</u>	<u>39,635</u>	<u>54,543</u>	<u>471,416</u>
14 & 15	Contractor's Proposal									
	Incurred Costs		130,693	25,432	7,630	388	3,563	387	28,576	196,669
	Estimated Costs		25,093	1,352	406	5,290	1,456	106	5,729	39,432
	Total		<u>155,786</u>	<u>26,784</u>	<u>8,036</u>	<u>5,678</u>	<u>5,019</u>	<u>493</u>	<u>34,305</u>	<u>236,101</u>
14 & 15	Questioned Costs									
	Incurred Costs - Variance Factor	1			5,087				865	5,952
	G&A	6							6,507	6,507
	Estimated Costs - Factory Labor	2		197	60				43	300
	Material	3	3,535			2,645			1,051	7,231
	Variance Factor	5			265				45	310
	G&A	6							539	539
	Total		<u>3,535</u>	<u>197</u>	<u>5,412</u>	<u>2,645</u>		<u>9,050</u>	<u>20,839</u>	

Contract Item No.	DESCRIPTION	Sch. Ref.	Direct Material	Factory Labor & Overhead	Factory Cost Variance	Eng'g Mat'l	Eng'g Labor	Tools & Test Equip't	G&A	TOTAL
14 & 15	Accepted Costs									
	Incurring Costs		130,693	25,432	2,543	388	3,563	387	21,204	184,210
	Estimated Costs		21,558	1,155	81	2,645	1,456	106	4,051	31,052
	Total -		152,251	26,587	2,624	3,033	5,019	493	25,255	215,262

Item No. 16 Contractor's Proposal

Purchased parts & material in fabricated parts	274,216
Factory labor & overhead, at standard costing rates applied to standard or measured hours (time study)	13,631
Provision for additional time & cost - factory labor & overhead - 30%	4,089
	<u>291,936</u>
Provision for Packing & Packaging cost - 9.4%	27,442
Total Works Delivery Cost	<u>319,378</u>

Item No. 16 Questioned Costs

Net excess of prices used in pricing Bill of Material over prices from purchase orders & other sources	5,253
Errors in reversing proposed revisions which had been included in original draft of Price Redetermination proposal	982
	<u>6,235</u>
Related G&A Expense	1,060
	<u>7,295</u>
Difference between proposed rate of 17% and adjusted rate of 15% or 2% X costs of \$317,334	6,347
	<u>13,642</u>

SECRET

SECRETSCHEDULE 1WESTINGHOUSE ELECTRIC CORPORATION
Contract FL-3011Adjustment to Variance Factor - Incurred Costs

Contractor applied a 30% Variance factor to convert recorded factory costs from standard costs to approximate actual costs. The conversion of standard costs to actual by use of variance rates is a recognized practice; however, the recognized practice is to apply the variance determined by relating the aggregate of standard costs processed during a period with the aggregate actual costs involved during the same period. The 30% rate was not determined in this manner, and could not be substantiated.

The auditor ascertained that up to 31 December actual labor costs for the contract were maintained and utilized for progress billing purposes. By relating these actual costs plus factory overhead at rates acceptable to the cognizant Navy auditor for 1956 reimbursement, to recorded standard costs for the contract, a variance of 10% was derived. The auditor has utilized this rate to apply to recorded costs through 28 February 1957, with this resultant adjustment:

<u>Item</u>	<u>Difference due to use of 10% rather than 30%</u>	<u>Applicable G&A</u>	<u>Total</u>
7	\$ 2,251	\$ 383	\$ 2,634
10	41,443	7,045	48,488
11, 12 & 13	17,556	2,985	20,541
14 & 15	5,087	865	5,952
Total	\$ 66,337	\$ 11,278	\$ 77,615

SECRET

SECRETSCHEDULE 2WESTINGHOUSE ELECTRIC CORPORATION
Contract FL-3011Adjustment of Factory Labor - Estimate

Contractor utilized a rate of approximately \$6.20 per hour to cost estimated factory labor hours. This rate resulted from increasing the composite 1956 rate by 6²⁴/₁₀₀, and is intended to represent an estimate of the 1957 composite rate. The auditor ascertained that the rate being utilized in 1957 was \$5.50 per hour, and has adjusted the proposed factory cost as follows:

<u>Item No.</u>	<u>Difference due to rate Differential</u>	<u>Variance Factor</u>	<u>Applicable G&A</u>	<u>Total</u>
10	\$ 3,971	\$ 1,191	\$ 878	\$ 6,040
11, 12 & 13	2,835	851	627	4,313
14 & 15	197	60	43	300
Total	<u>\$ 7,003</u>	<u>\$ 2,102</u>	<u>\$ 1,548</u>	<u>\$ 10,653</u>

SECRET

SECRET

SCHEDULE 3

WESTINGHOUSE ELECTRIC CORPORATION
Contract FL-3011

Adjustment of Material Estimate

The estimate to complete for Items 14 and 15 included a duplicate provision for engineering material for anticipated engineering changes, in the amount of \$2,645.

The estimate for Items 14 and 15 also included provision for \$3,535 for additional spare parts. The parts in question are those referred to in paragraph 2 of letter of Contracting Officer dated 5 September 1957, No. 19086. Since the requirement for the parts has not been approved by the using activity, and no actual costs have been incurred, contractor's representative agreed that their exclusion from the proposal was appropriate.

G and A expense applicable to these items amounted to \$1051.

SECRETSCHEDULE 4WESTINGHOUSE ELECTRIC CORPORATION
Contract FL-3011Purchase Commitments

a. There was an unexplained difference of \$30,896 for Contract Item No. 7 between purchase commitments shown in the contractor's working papers underlying the proposal and the amount reflected in records maintained on a continuous basis by the CPFF accounting group. The total, after adding G&A expenses of \$5,252, is questioned. \$36,148

b. Included in the estimate to complete are three items pertaining to one vendor:

Item 7 - Amount shown as committed	\$15,000	
Applicable G&A	2,550	<u>17,550</u>
Item 11,12,13 - Amount for PO BC - 72,912	4,356	
Amount related to PO BC - 78,900	19,688	
	24,044	
Applicable G&A	4,088	<u>28,132</u>

These were explained in Contractor's price redetermination file as follows:

Item 7: "Form AAE-31E - 2E - Item No. 7. No. AAD-30175 - Work is completed on this item. Any further engineering support should be charged to XAA-92399. Excepted is possible relief on PO's, CA82753 and CA82755. Estimate they will require about \$15,000 additional. Contact Bill _____ in purchasing".

Item 11, 12, 13 - PO BC 72912: Letter from Purchasing Dept. to F.K. re bid proposal. "Order PO 72912 as reduced from 14 to 10 was for \$10,890; as of this date (3/13/57) two must be replaced with the possibility of an additional two. This could result in additional cost of \$4,356."

PO BC 78900: Letters from Purchasing Dept. to FK, dated 3/13 & 14/57: "Approval granted by customer for 10 units for costs up to \$28,540.44. Replacement costs for 2 known defective units and possibly 2 not yet tested could increase above amount by \$14,636. Vendor's estimate of increased costs of certain testing is performed by vendor at his plant - \$5,052. Company's liability on P.O. could possibly total \$48,228.44 as shown." The auditor noted that \$28,540.44 for the Purchase Order was approved by the Contracting Officer on 1/28/57, and an additional \$2,303.26 was approved on 7/9/57. The auditor believes that no payments have been made to the vendor. The auditor was not able to determine whether the contingencies which could result in \$24,044 additional costs according to the referenced correspondence were satisfied by the additional approval of \$2,303.26 nor whether the vendor should not be held liable for defective units, rather than the customer.

SECRET

SECRETSCHEDULE 5WESTINGHOUSE ELECTRIC CORPORATION
Contract FL-3011Adjustment of Variance Factor - Estimate

Contractor applied to the estimated factory cost the variance factor of 30% described in Schedule 1.

Information obtained by the auditor, as to the method by which hours for completion of the contract were estimated, indicates that actual cost experience rather than forecasting standards were used. For this reason the auditor is of the opinion that the costs derived from the estimates should be computed in the same manner as standard costs used in the cost records. This would call for application of a variance factor consistent with that used in Schedule 1, but for a different accounting period. A computation by the contractor's accountants for the year 1957, based on nine months actual costs and a three-month projection indicated that the 1957 variance was approximately 7%. The auditor recommended use of that rate, and has computed the following adjustment:

<u>Item No.</u>	<u>Difference due to use of 7% rather than 30%</u>	<u>Applicable G & A</u>	<u>Total</u>
10	\$ 7,193	\$1,223	\$ 8,416
11, 12 & 13	5,136	873	6,009
14 & 15	265	45	310
Total	<u>\$12,594</u>	<u>\$2,141</u>	<u>\$14,735</u>

SECRET

SECRETSCHEDULE 6WESTINGHOUSE ELECTRIC CORPORATION
Contract FL-3011Adjustment of General and Administrative Expenses

Contractor used an estimated 17% G&A rate to all costs in the proposal. The auditor recommends use of different rates for each of the accounting periods involved.

The 17% rate represents an estimated rate for 1957. The cognizant Navy auditor advised that 15% was more likely to be the final negotiated 1957 rate. He further advised that negotiations which would take place to set the 1956 rate would result in a rate not in excess of 12%.

The auditor has adjusted the proposed G&A expenses by use of the rates recommended by the Navy auditor, as follows:

	<u>Item No.</u>				
	<u>7</u>	<u>10</u>	<u>11,12 & 13</u>	<u>14 & 15</u>	<u>Total</u>
Difference of 5% applied to accepted 1956 incurred costs	\$7,144	\$22,886	\$13,323	\$ 5,415	\$48,768
Difference of 2% applied to 1957 incurred costs	212	3,910	1,234	1,092	6,448
Estimated Costs	<u>67</u>	<u>5,231</u>	<u>1,768</u>	<u>539</u>	<u>7,605</u>
Total -	<u>\$7,423</u>	<u>\$32,027</u>	<u>\$16,325</u>	<u>\$ 7,046</u>	<u>\$62,821</u>

SECRET